



AUDITOR - GENERAL  
SOUTH AFRICA

The Accounting Officer  
Ngaka Modiri Molema District Municipality

30 November 2012

**Report of the Auditor-General on the financial statements and performance information of Ngaka Modiri Molema District Municipality for the year ended 30 June 2012**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).
2. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



.....  
Senior Manager

Enquiries: Riaan du Plessis  
Senior Manager  
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AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE NGAKA MODIRI MOLEMA DISTRICT MUNICIPALITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

1. I was engaged to audit the financial statements of the Ngaka Modiri Molema District Municipality, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages **XX to XX**.

#### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

#### **Basis for disclaimer of opinion**

##### **Property, plant and equipment**

4. The district municipality is responsible for the powers and functions relating to water and sanitation services for the entire district and is the water service authority in terms of the Water Services Act of South Africa, 1998 (Act No. 108 of 1998). The district municipality has informal agreements with the local municipalities to perform these functions on its behalf, but I was unable to obtain signed updated service level agreements with the local municipalities in this regard. I could not determine the resulting understatement in infrastructure assets, service charges revenue, receivables from non exchange transactions or cost of provision of water and sanitation services as it was impracticable to do so and could not determine whether any adjustments to the financial statements were necessary.
5. The municipality did not have adequate systems in place to maintain records of resources held by the municipality in accordance with SA Standards of GRAP, GRAP 17, *Property, plant and equipment*. As stated in note 11 to the financial statements, all the risks and rewards for buildings, infrastructure and community assets had not been grouped in similar nature or function as required by GRAP 17. Contrary to the requirements of GRAP 17 the municipality did not review the residual values and useful lives of buildings, infrastructure and community assets at each reporting date. Infrastructure assets with a gross carrying amount of



R565 621 717 (2011: R293 815 404) are included in the financial statements at carrying amount whilst still being in use. Because of the nature of these assets, it was impracticable to confirm or verify by alternative means the correct value of these assets. Consequently I was unable to determine whether any adjustments were necessary to the amounts disclosed for buildings, infrastructure and community assets as disclosed in note 11 to the financial statements.

6. I was unable to obtain sufficient appropriate audit evidence to verify other assets of R52 388 181 (2011: R40 460 507) as disclosed in note 11 to the financial statements. The municipality did not have adequate systems in place to maintain records of its other assets. Furthermore, the municipality did not review the residual values and useful lives of assets at each reporting date in accordance with SA Standards of GRAP, GRAP 17, *Property, plant and equipment*. Included in other assets with a gross carrying amount of R52 388 181 (2011: R40 460 507) are assets with a carrying amount of R1 whilst still being in use. Because of the nature of these assets, it was impracticable to confirm or verify by alternative means the correct value of the assets. Consequently, I was unable to determine whether any adjustments were necessary to the amount disclosed for other assets.

### Expenses

7. I was unable to obtain sufficient appropriate audit evidence for repairs and maintenance of R46 100 279 (2010: R18 768 315), bulk purchases of R6 450 152 (2010: R1 884 408), contracted services of R25 955 560 (2010: R22 631 219), grants and subsidies paid of R55 441 819 (2010: R132 845 182) and general expenses of R160 153 688 (2010: R136 256 896) included in total expenses of R294 101 497 disclosed in the statement of financial performance. The municipality did not have adequate systems in place to maintain records of its expenses and I was unable to confirm the stated amounts by alternative means. Consequently I was unable to determine whether any further adjustments were necessary to the amounts disclosed for expenses.

### Capital commitments

8. I was unable to obtain sufficient appropriate audit evidence for capital commitments of R243 962 392 included in the total capital commitments of R270 005 592 (2011: R142 640 685) as disclosed in note 52. The municipality did not have adequate systems in place to maintain records of its contractual obligations. Alternative procedures identified contractual obligations not recorded which resulted in capital commitments being understated by R17 260 373. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the restatement of R21 378 517 made to rectify a prior year misstatement in the corresponding figure of capital commitments. Moreover, this adjustment was not included in the restatement of corresponding figures in note 61 to the financial statements. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for capital commitments.

### Employee costs

9. I was unable to obtain sufficient appropriate audit evidence for employee related costs of R117 981 595 (2011: R 90 434 050) disclosed in note 33. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the adjustment of R5 334 969 in the corresponding figure of employee costs. This adjustment was not included in the restatement of corresponding figures in note 61 to the financial statements. I was unable to confirm the stated amount and the restatement by alternative means. Consequently I was unable to determine whether any further adjustments relating to the current or corresponding prior year amounts disclosed for employee related costs were necessary.



### **Cash and cash equivalents**

10. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents of R109 849 194 (2011: R202 857 157) as disclosed in the statement of financial position and note 1 to the financial statements. I was unable to confirm reconciling items of R4 147 669 or verify the stated amount by alternative means. Consequently, I was unable to determine whether any adjustments relating to cash and cash equivalents in the financial statements were necessary.

### **Trade and other payables from exchange transactions**

11. I was unable to obtain sufficient appropriate audit evidence for trade and other payables from exchange transaction of R43 082 073 included in the total of R98 827 466 (2011: R88 917 137) as disclosed in note 16 to the financial statements. Alternative procedures identified obligations not recorded which resulted in trade and other payables being understated by R17 340 615. Furthermore, the municipality did not have adequate systems in place to maintain records of leave, resulting in the staff leave accrual being overstated by R7 450 502. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for trade and other payables from exchange transactions.
12. I was unable to obtain sufficient appropriate audit evidence for the net salaries clearing account balance of R5 714 388 included in the balance of trade and other payables from exchange transactions as disclosed in note 16 to the financial statements. The entity's records did not permit the application of alternative audit procedures regarding the net salaries clearing account. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of and obligations pertaining to the net salaries clearing account balance.

### **Value added tax (VAT) receivable**

13. I was unable to obtain sufficient appropriate audit evidence to verify the VAT receivable of R66 795 988 disclosed in the statement of financial position and note 18. The municipality did not have adequate systems in place to maintain records for VAT. I was unable to confirm the stated amount by alternative means. Furthermore, alternative procedures identified obligations not recorded which resulted in VAT receivables being understated by R5 476 102. Consequently, I was unable to determine whether any adjustments were necessary to the amount disclosed for VAT receivable.

### **Current provisions**

14. I was unable to obtain sufficient appropriate audit evidence for provisions of R59 659 580 as disclosed in the statement of financial position. The municipality did not have adequate systems in place to maintain records of provisions. Furthermore, alternative procedures failed to confirm that the municipality had a legal or constructive obligation to raise the provision. Consequently I was unable to determine whether any further adjustments were necessary to the amount disclosed for provisions.
15. The municipality did not provide for employee bonuses that are in arrears as required by SA Standards of GRAP, GRAP 19, *Provisions, contingent liabilities and contingent assets*. The effect on the financial statements are that provisions are understated by R3 670 369 and the surplus for the period and accumulated surpluses are overstated by R3 670 369 respectively.

### **Unauthorised expenditure**

16. I was unable to obtain sufficient appropriate audit evidence to verify unauthorised expenditure for the current year of R68 058 226 as disclosed in note 50.1 to the financial statements. I was unable to confirm the stated amount by alternative means, as the municipality did not have adequate systems in place to maintain records of payments made which exceeded the



approved budget. Furthermore, alternative procedures identified additional unauthorised expenditure of R74 357 565 not disclosed in the financial statements. Consequently I was unable to determine whether any adjustments relating to unauthorised expenditure in the financial statements were necessary.

#### **Irregular expenditure**

17. The municipality did not include particulars of irregular expenditure in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. The municipality made payments in contravention of the supply chain management requirements which were not included in irregular expenditure, resulting in irregular expenditure being understated by R 271 806 313 (2011: R107 409 118).
18. I was unable to obtain sufficient appropriate audit evidence for the restatement of R41 845 125 in the corresponding figure of irregular expenditure of R107 409 118 as disclosed in note 61 to the financial statements. I was unable to confirm the restatement by alternative means. Consequently I was unable to determine whether any further adjustments to the irregular expenditure corresponding figure were necessary.

#### **Contingent liability**

19. I was unable to obtain sufficient appropriate audit evidence for contingent liabilities of R41 070 359 as disclosed in note 54. The municipality did not have adequate systems in place to maintain records of its legal correspondence. Furthermore, alternative procedures identified contingent liabilities recorded which resulted in contingent liabilities being overstated by R1 746 352. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for contingent liabilities.

#### **Other receivables from non-exchange transactions**

20. I was unable to obtain sufficient appropriate audit evidence for other debtors of R6 022 128 (2011: R6 054 727), and I was unable to determine whether the municipality used objective evidence to calculate the provision for the impairment of other debtors of R5 727 996, as disclosed in note 3 to the financial statements. I was unable to verify or confirm by alternative means that other debtors and the provision for bad debts was calculated in terms of the requirements of the South African Statement of Generally Accepted Accounting Practice, IAS 39 (AC133), *Financial instruments recognition and measurements*. Consequently, I was unable to determine whether any adjustments relating to other debtors, the provision for bad debts and the debt impairment expense in the financial statements were necessary.

#### **Depreciation and amortisation expense**

21. The municipality did not depreciate property, plant and equipment in accordance with the requirements of SA Standards of GRAP, GRAP 17, *Property, plant and equipment*. Contrary to the municipality's accounting policy and GRAP 17, depreciation was calculated on the incorrect basis. The effects on the financial statements are that property, plant and equipment, surplus for the period and accumulated surplus are overstated by R2 067 058 for the current year respectively.

#### **Operating leases**

22. The municipality recognised expenses in the statement of financial performance that constitute lease payments, but did not disclose operating lease agreements in accordance with SA Standards of GRAP, GRAP 13, *Leases*. I have not determined the correct amount for these operating leases as it was impracticable to do so.

#### **New standards of GRAP**

23. The municipality did not disclose in the financial statements new Standards of GRAP that has



been issued but not yet effective, that was not applied, as required by SA Standards of GRAP, GRAP 3, *Accounting policies, changes in accounting estimates and errors*. This fact and the known or reasonably estimable information relevant to assessing the possible impact that application of the new standards will have on the municipality's financial statements in the period of initial application, was not disclosed in the financial statements.

#### **Disclaimer of opinion**

24. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

#### **Emphasis of matters**

25. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### **Restatement of corresponding figures**

26. As disclosed in note 61 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of the Ngaka Modiri Molema District Municipality at, and for the year ended 30 June 2011.

#### **Material underspending of the conditional grant**

27. As disclosed in note 21 to the financial statements, the municipality has underspent the government grants to the amount of R3 988 955 for the current year and R 79 561 544 in respect of prior years. As a consequence, the municipality may not have achieved all of its objectives of providing basic services to the community.

#### **Fruitless and wasteful expenditure**

28. As disclosed in note 50.2 to the financial statements, fruitless and wasteful expenditure of R49 007 was incurred in the current year and fruitless and wasteful expenditure from prior years of R423 027 has not yet been dealt with in accordance with section 32 of the MFMA.

#### **Additional matter**

29. I draw attention to the matter below. My opinion is not modified in respect of this matter.

#### **Unaudited supplementary schedules**

30. The supplementary information set out on pages **XX to XX** does not form part of the financial statements and is presented as additional information. I have not audited these annexures and, accordingly, I do not express an opinion thereon.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

31. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

#### **Predetermined objectives**

32. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages **XX to XX** of the annual report.
33. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual



reporting principles and whether the reported performance is consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information (FMPPI).

34. The reliability of the information in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
35. The material findings are as follows:

#### **Usefulness of information:**

36. Section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the disclosure of measures taken to improve performance in the annual performance report where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided of 100% of all measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of the measures taken to improve performance.
37. Section 41(c) of the MSA, requires that the annual performance integrated development plan and service delivery agreement should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives, indicators, targets are not consistent with the objectives, indicators, targets as per the approved integrated development plan and service delivery agreement.
38. The National Treasury FMPPI requires that performance indicators be well defined and verifiable and targets be specific, measureable and time bound:
  - A total of 100% of the targets relevant to the Municipal Manager, Water and Sanitation and Local Economic Development Performance Information were not specific, measurable and time bound in clearly identifying the nature and the required level of performance.
  - A total of 100% of the targets relevant to the Municipal Manager, Water and Sanitation and Local Economic Development Performance Information were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.
  - A total of 100% of the targets relevant to the Municipal Manager, Water and Sanitation and Local Economic Development Performance Information were not verifiable in that valid processes and systems that produce the information on actual performance did not exist.

This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles and a lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information.

#### **Reliability of information**

39. The National Treasury FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. The municipality institutions could not provide sufficient appropriate evidence to support any of the selected development priorities relating to the Municipal Manager, Water and Sanitation or Local Economic Development Performance Information.



### **Compliance with laws and regulations**

40. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

#### **Strategy planning and performance management**

41. The municipality did not give effect to its integrated development plan and, as required by section 36 of the MSA and Municipal planning and performance management regulation 6.
42. Contrary to the requirements of section 40 of the MSA, the municipality did not establish mechanisms to monitor and review its performance management system. The municipality did not:
- set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan;
  - set measurable performance targets with regard to each development priority and objective;
  - monitor performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set;
  - measure and review performance at least once per year, with regard to each of those development priorities and objectives and against the key performance indicators and targets set.

#### **Budgets**

43. Expenditure was incurred that was not budgeted for, in contravention of section 15 of the MFMA.
44. Quarterly reports were not submitted to the council on the financial state of affairs of the municipality within 30 days after the end of each quarter. This is contrary to the requirements of section 52(d) of the MFMA.
45. Contrary to the requirements of section 71(1) of the MFMA, sufficient appropriate audit evidence could not be obtained that monthly budget statements were submitted to the mayor and relevant provincial treasury.

#### **Annual financial statements, performance and annual report**

46. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a disclaimer of opinion.
47. The annual performance report for the year under review does not include a comparison of the performance with set targets with the previous financial year, as required by section 46(1)(b) of the MSA.
48. The 2009/10 and 2010/11 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.

#### **Audit committee**

49. Contrary to the requirements of section 166(2)(b) of the MFMA, the audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with the MFMA and DoRA.



## **Internal audit**

50. Internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14(1)(a).
51. The internal audit unit did not assess the functionality of the performance management system or whether the performance management system complied with the requirements of the MSA and the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal Planning and Performance Management Regulation 14(1)(b)(i), (ii) and (iii).
52. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(c).

## **Procurement and contract management**

53. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1) or TR 16A.6.4 and PN 8 of 2007/08.
54. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
55. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
56. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
57. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
58. Awards were made to providers who are persons in the service of the municipality and whose directors are persons in service of the municipality in contravention of SCM regulations 44. Furthermore the providers failed to declare that they were in the service of the municipality, as required by SCM regulation 13(c)]
59. Awards were made to providers who are persons in service of other state institutions or whose directors principal shareholders are persons in service of other state institutions, in contravention of SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
60. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the Municipal Systems Act.
61. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations that were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive. The municipality did not have adequate systems in place to maintain records of its supply chain processes and contractual obligations.

## **Expenditure management**

62. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
63. The accounting officer did not take reasonable steps to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.



### **Revenue management**

- 64. Interest was not charged on all arrears accounts as required by section 64(2)(g) of the MFMA.
- 65. A credit control and debt collection policy was not adopted, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.

### **Asset management**

- 66. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) and 96(2)(a) of the MFMA.
- 67. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) and 96(2)(b) of the MFMA.

### **Liability management**

- 68. A management, accounting and information system which adequately accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
- 69. An effective system of internal control for liabilities including a liability register was not in place, as required by section 63(2)(c) of the MFMA.

### **HR Management**

- 70. Sufficient appropriate audit evidence could not be obtained that appointments were made in posts of managers directly accountable to municipal manager that were advertised, as required by section 56(3) of MSA.
- 71. Several officials was appointed without having met the prescribed minimum competency levels and the continued employment in the position was not made subject to meeting such requirements by 1 January 2013, as required by section 54A(2)/56(1)(b) of the MSA and regulation 18(2) on Minimum Competency levels.
- 72. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.
- 73. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels reg14(2)(a).
- 74. The performance agreements of officials employed in the municipality did not have the minimum competencies, did not include the attainment of minimum competencies as a performance target, as required by Municipal Regulations on Minimum Competency Levels regulation 16(1) and (2).

### **Internal control**

- 75. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report

### **Leadership**

- 76. Management failed to appoint sufficient appropriately skilled staff in key positions within the finance unit and training and development initiatives failed to address the underlying deficiencies that caused the matters to be repeatedly reported on in the audit report. Policies and procedures did not adequately guide financial and performance activities and failed to address the shortcomings in internal controls that resulted in the compliance deviations that have been reported. Furthermore management's oversight was inadequate in preventing material misstatements in the financial statements.



## Financial and performance management

77. Management failed to implement proper record keeping or effective controls to ensure that information in the financial statements and the report on predetermined objectives were reliable before submission for audit, or readily available for audit purposes. This was mainly due to the inability of management to address the prior year audit findings. Management failed to prepare regular, accurate and complete performance reports that were supported and evidenced by reliable information. Review and monitoring of compliance with applicable laws and regulations were not effectively performed. Management's failure to address the repetitive findings relating to supply chain management regulations is indicative of possible financial misconduct.

## Governance

78. The audit committee did not adequately provide oversight over the effectiveness of the internal control environment, resulting in the internal control environment over financial and performance information and compliance with laws and regulations being ineffective.

## OTHER REPORTS

### Investigations

79. An investigation is being conducted by Enonce to probe the manner in which the municipality awards contracts to prospective suppliers and service providers. The investigation aims to establish whether the awards were granted in accordance with the supply chain management regulations. The investigation was still ongoing at the reporting date.

*Auditor General*

Rustenburg

30 November 2012



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